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## Hong Kong

### Poultry and Products

### Annual

### 2005

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**Report Highlights:**

Hong Kong's 2006 imports of chilled/frozen poultry meat are expected to increase by 7 percent. In the wake of avian influenza (AI) concerns and governmental policy, Hong Kong consumers are expected to continue to shift away from eating locally produced and imported live chickens from Mainland China, which are then slaughtered in wet markets in favor of imported chilled whole birds from Mainland China and frozen poultry from the United States, Brazil and China. The percentage of frozen poultry meat and feet imported into Hong Kong and re-exported to Mainland China is expected to continue to decline - 74% in 2003, 37% in 2004 and 27% in 2005 as U.S. and Brazilian exporters ship direct to Mainland China. Despite a weakening of the U.S. dollar relative to the Brazilian real of nearly 20%, Brazilian leg quarters and wings remain extremely price competitive. The long-term trend is for the U.S. share of Hong Kong retained imports of chilled and frozen poultry imports to decline unless well-targeted market promotion activities are initiated in the future.

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## Table of Contents

<b>Situation and Outlook.....</b>	<b>3</b>
<b>Statistical Table – Plty, Meat, Chicken .....</b>	<b>5</b>
PS & D Table .....	5
Table 1: Production of Live Chicken .....	6
Table 2: Average Retail Prices of Chicken Relative to Pork and Beef (freshly slaughtered) ..	6
Table 3: Average Retail Prices of Chicken Relative to Pork and Beef (frozen) .....	6
Table 4: Hong Kong Chicken Imports in Value by Major Suppliers, Jan – June.....	7
Table 5: Hong Kong Chicken Imports in Quantity by Major Suppliers, Jan – June .....	7
Table 6: Average C.I.F. Prices of Chicken Products by Major Suppliers, Jan – June.....	7
Table 7: Chicken Re-exports by Major Destinations, Jan – Jun.....	7
Table 8: Hong Kong Chicken Imports by Categories in Value, Jan – Jun.....	8
Table 9: Hong Kong Chicken Imports by Categories in Volume, Jan – June.....	8
Table 10: Hong Kong Chicken Re-exports by Categories in Volume, Jan – June .....	8
Table 11: Hong Kong Retained Chicken Products by Categories, Jan – Nov .....	8
Table 12: U.S. Chicken Exports to Hong Kong by Categories in Value, Jan – June .....	9
Table 13: U.S. Chicken Exports to Hong Kong by Categories in Volume, Jan – June .....	9
Table 14: U.S. Chicken Exports to Hong Kong being Re-exported, Jan – June .....	9
Table 15: Hong Kong's Retained Imports of U.S. Chicken Products, Jan – June .....	9
<b>Narrative on Supply and Demand, Policy &amp; Marketing .....</b>	<b>10</b>
Production.....	10
Consumption .....	10
Trade .....	11
<b>U.S. Products .....</b>	<b>12</b>

## Situation and Outlook

Hong Kong's 2006 imports of chilled/frozen poultry meat are expected to increase by 7 percent. In the wake of avian influenza (AI) concerns and governmental policy, Hong Kong consumers are expected to continue to shift away from eating locally produced and imported live chickens from Mainland China, which are then slaughtered in Hong Kong wet markets, in favor of imported chilled whole birds from Mainland China and frozen poultry from the United States, Brazil and China. Meanwhile, the percentage of frozen poultry meat and feet imported into Hong Kong and re-exported to Mainland China is expected to continue to decline - 74% in 2003, 37% in 2004 and 27% in 2005 as U.S. and Brazilian exporters ship direct to Mainland China.

Despite a weakening of the U.S. dollar relative to the Brazilian real of nearly 20%, Brazilian leg quarters and wings remain extremely price competitive relative to similar U.S. poultry products. The long-term trend is for the U.S. share of Hong Kong retained imports of chilled and frozen poultry imports to decline.

On a positive note, U.S. exports of poultry feet in January – June 2005 were up nearly 79% compared to the same period in 2004. However, the increase was due to the removal of Hong Kong's ban on U.S. poultry, which was imposed from February-April 2004. Despite the resumption of trade, U.S. shipments are not expected to reach historical high levels given more stringent certification requirements imposed by the Hong Kong government on imported poultry feet, reduced U.S. supply availability, and reduced re-exports of poultry meat and feet into Mainland China through Hong Kong.

Effective April 30, 2005, the Hong Kong government required new certification requirement for U.S. poultry feet (paws) imports to Hong Kong. According to trade sources this change has resulted in 50% reduction in imports. They maintain that the trade statistics for May and June do not yet fully reflect the current situation because products produced before April 30, but arrive Hong Kong after April 30, are still eligible to get into Hong Kong without using the revised certification requirement.

The possibility of an outbreak of highly pathogenic avian influenza in Mainland China could temporarily disrupt live, chilled and frozen poultry imports from China into Hong Kong and give U.S. and Brazilian exporters a temporary supply advantage. Recent food safety scares related to strep suis in pork imported from Mainland China and malachite green in eels and freshwater fish has eroded Hong Kong consumer confidence in the safety of Mainland food products. However, there is no evidence that these two events will lead to a shift away from Mainland food products over the long term. Thus, the long-term trend, barring a major devaluation of the dollar relative to the Mainland Chinese currency, is for the U.S. share of Hong Kong retained imports of chilled and frozen poultry imports to decline.

In 2004, Hong Kong total market for all chicken products amounted to \$545 million, including live chickens (\$61 million), chilled and frozen poultry (\$274 million), and chicken feet (paws) and re-exports. The amount of total consumption supplied by freshly slaughtered chickens is expected to decline in response to administrative measures by the Hong Kong government and the changing eating and consumption habits of Hong Kong consumers. For example, the share of the market supplied by freshly slaughtered chickens declined from 27 percent in 2003 to 11 percent in 2004. Thus, the consumption and importation of chilled/frozen chickens are expected to gradually increase in the future.

Brazil since 2004 has overtaken the U.S. as Hong Kong's largest supplier of chilled/frozen chicken meat in terms of value. Brazilian products successfully expanded their market share when U.S. chicken products were banned in Hong Kong in early 2004. Even when the ban

was lifted, traders continued to buy from Brazil given the price competitiveness of Brazilian chilled/frozen poultry meat relative to the U.S. Local traders indicated that the current wholesale prices of Brazilian products are even lower than the offer prices of U.S. products.

In 2004, the import of U.S. products to Hong Kong amounted to \$152 million including paws and re-exports. Thus far in 2005, U.S. poultry products have maintained 29 percent share of Hong Kong's imports of chilled/frozen chicken by value, down sharply in contrast to 2003 when the U.S. maintained a 45 percent share of the market. U.S. poultry products are still perceived to be of higher quality and safer than Mainland Chinese product in the market. However, the Hong Kong market is largely price-driven. There is still a demand for quality products in high-end restaurants, hotels and large-scale caterers concerned about food safety and brand image.

The total amount of live chickens produced in Hong Kong will decline from 3.7 million head to 2 million head by the end of 2005 as local producers surrender their licenses in response to the Hong Kong government's initiative to address public health concerns related to future AI outbreaks. The Hong Kong government encourages farmers to surrender their farm operation licenses in return for ex-gratia payments. Therefore, Hong Kong's chicken production is expected to decline gradually in the future.

## Statistical Table – Poultry, Meat, Chicken

## PS &amp; D Table

<b>Hong Kong Commodity Poultry, Meat, Broiler (1000 MT) (MIL HEAD)</b>							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate New]	USDA Official [Old]	Post Estimate New]	USDA Official [Old]	Post Estimate New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Inventory (Reference)	2	2	2	2	0	2	(MIL HEAD)
Slaughter (Reference)	17	17	20	22	0	22	(MIL HEAD)
Beginning Stocks	0	0	15	15	0	0	(1000 MT)
Production	29	29	34	38	0	38	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	244	244	200	230	0	246	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	244	244	200	230	0	246	(1000 MT)
TOTAL SUPPLY	273	273	249	283	0	284	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	0	0	0	0	0	0	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Consumption	258	258	249	283	0	284	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	258	258	249	283	0	284	(1000 MT)
TOTAL Use	258	258	249	283	0	284	(1000 MT)
Ending Stocks	15	15	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	273	273	249	283	0	284	(1000 MT)
Calendar Yr. Imp. from U.S.	21	56	33	47	0	0	(1000 MT)

Note: Re-exports are taken from Imports and Exports refer to domestic exports. Slaughter (Reference) includes the importation of live chickens that are less than 185 grams. All figures above do not include chicken feet/paws.

**Table 1: Production of Live Chicken**

(Number)	2001	2002	2003	2004	04/03 % change
Local Supply	8,322,000	8,604,000	10,154,000	7,821,054	- 23%
Import	39,323,590	27,119,047	23,779,281	9,307,874	- 61%
Total	47,645,590	35,723,047	33,933,281	17,128,928	- 50%

Source: Hong Kong Agriculture, Fisheries and Conservation Department

**Table 2: Average Retail Prices of Chicken Relative to Pork and Beef (freshly slaughtered)**

US\$/kg	2000	2001	2002	2003	2004	2005 Jan – May
Chicken (top grade)	\$4.49	\$4.60	\$4.58	\$4.22	\$5.60	\$5.65
Beef (best quality)	\$7.17	\$7.20	\$7.15	\$7.2	\$7.17	\$8.68
Beef (belly flesh)	\$5.34	\$5.36	\$5.35	\$5.45	\$5.47	\$5.47
Pork (best cut)	\$4.87	\$4.54	\$4.26	\$4.10	\$4.03	\$4.25
Pork Chop	\$5.92	\$5.58	\$5.18	\$4.89	\$4.82	\$5.05

Source : Hong Kong Census & Statistics Department  
Exchange Rate: US\$1 = HK\$7.75

**Table 3: Average Retail Prices of Chicken Relative to Pork and Beef (frozen)**

Product Categories	Weight	HK\$(US\$ = HK\$7.75)
Boneless mid-joint wings (Brazil)	2 lb	22
Wing tips (Brazil)	3 lb	10
Whole broiler legs (USA)	2 lb	21
Boneless thigh meat (Brazil)	2 lb	21
Mid-joint wings (Brazil)	2 lb	33
Bone-in ribeye (US)		115/lb
Short ribs (US)	2 lb	66
Sirloin (US)		48/lb
Rib-finger (Brazil)	3.3 lb	59
Heel muscle (Brazil)	2 lb	27
Tendon (Brazil)	2.5 lb	16
Bacon (Canada)	½ lb	10
Knuckle (Canada)	2 lb	18
Bone-in pork chop	2 lb	36
Tenderloin	1 lb	10.5
Sparerib	2 lb	23

Source : Retailer

Note : Chicken products defined in the following tables include re-exports and chicken paws.

**Table 4: Hong Kong Chicken Imports in Value by Major Suppliers, Jan – June**

Country	Millions of US Dollars			% Share		% Change	
	2003	2004	2005	2003	2004	2005 - 05/04	-
--The World--	239	216	241	100	100	100	12
Brazil	60	86	71	25	40	30	-17
United States	109	56	70	45	26	29	26
China	28	28	59	12	13	24	109
France	4	6	6	2	3	3	-3
Thailand	13	6	6	5	3	3	-3

**Table 5: Hong Kong Chicken Imports in Quantity by Major Suppliers, Jan – June**

Country				% Change
	- MT - 2003	- MT - 2004	- MT - 2005	- 05/04 -
--The World--	336,770	222,499	251,171	12.89
United States	169,555	65,936	97,737	48
Brazil	83,572	88,058	67,475	-23
China	19,845	19,232	38,677	101
Turkey	8,172	7,536	8,313	10
Iran	4,725	5,831	6,058	4

**Table 6: Average C.I.F. Prices of Chicken Products by Major Suppliers, Jan – June**

Country				% Change
	- / KG - 2003	- / KG - 2004	- / KG - 2005	- 05/04 -
--The World--	0.71	0.97	0.96	-1.03
United States	0.64	0.84	0.72	-14.29
Brazil	0.71	0.98	1.06	8.16
China	1.4	1.46	1.52	4.11
Turkey	0.47	0.78	1	-21.79
Iran	0.41	0.74	0.5	-32.43

**Table 7: Chicken Re-exports by Major Destinations, Jan – Jun**

Country				% Change
	- MT - 2003	- MT - 2004	- MT - 2005	- 05/04 -
--The World--	250,607	83,799	69,994	-16.47
China	238,163	71,257	43,818	-38.51
Taiwan	7,021	0	21,824	0
Macau	3,376	2,360	2,712	14.92
Vietnam	1,147	9,995	1,604	-83.96

**Table 8: Hong Kong Chicken Imports by Categories in Value, Jan – Jun**

	Millions of US Dollars			% Change
	2003	2004	- 2005	- 05/04 -
<b>chicken</b>	239	216	241	11.9
chicken wings	88	79	78	-1.29
chicken feet	80	67	68	2.55
chicken frozen cuts	38	32	39	22.22
chicken, whole	19	22	36	61.05

**Table 9: Hong Kong Chicken Imports by Categories in Volume, Jan – June**

				% Change
	- MT - 2003	- MT - 2004	- MT - 2005	- 05/04 -
<b>chicken</b>	336,770	222,499	251,171	12.89
chicken wings	115,199	77,945	72,608	-6.85
chicken feet	142,878	86,748	107,574	24.01
chicken frozen cuts	49,922	30,050	34,232	13.92
chicken, whole	14,757	16,238	23,697	45.94

**Table 10: Hong Kong Chicken Re-exports by Categories in Volume, Jan – June**

				% Change
	- MT - 2003	- MT - 2004	- MT - 2005	- 05/04 -
<b>chicken</b>	250,607	83,799	69,994	-16.47
chicken wings	84,983	25,719	21,911	-14.81
chicken feet	126,569	42,185	41,358	-1.96
chicken frozen cuts	26,942	11,544	4,273	-62.98
chicken, whole	1,222	671	117	-82.62

**Table 11: Hong Kong Retained Chicken Products by Categories, Jan – Nov**

				% Change
	- MT - 2003	- MT - 2004	- MT - 2005	- 05/04 -
<b>chicken</b>	86,163	138,700	181,177	31%
chicken wings	30,216	52,226	50,697	-3%
chicken feet	16,309	44,563	66,216	49%
chicken frozen cuts	22,980	18,506	29,959	62%
chicken, whole	13,535	15,567	23,580	51%



**Table 12: U.S. Chicken Exports to Hong Kong by Categories in Value, Jan – June**

Millions of US Dollars	2003	2004	% Change	
			2005 -	05/04 -
<b>chicken</b>	109	56	70	26.15
chicken wings	28	11	15	36.06
chicken feet	55	29	42	43.13
chicken frozen cuts	21	13	11	-14.36
chicken, whole	1	1	0	-54.02

**Table 13: U.S. Chicken Exports to Hong Kong by Categories in Volume, Jan – June**

	MT, 2003	MT, 2004	% Change	
			MT, 2005 -	05/04 -
<b>chicken</b>	169,555	65,936	97,737	48%
chicken wings	39,414	12,413	16,973	37%
chicken feet	91,025	36,169	64,803	79%
chicken frozen cuts	33,013	14,699	12,708	-14%
chicken, whole	687	565	250	-56%

**Table 14: U.S. Chicken Exports to Hong Kong being Re-exported, Jan – June**

	- MT - 2003	- MT - 2004	- MT - 2005 -	% Change 05/04 -
<b>chicken</b>	142,223	35,576	31,259	-12%
chicken wings	29,474	6,256	6,179	-1%
chicken feet	84,037	18,676	21,813	17%
chicken frozen cuts	22,988	8,708	2,551	-71%
chicken, whole	874	572	0	-100%

**Table 15: Hong Kong's Retained Imports of U.S. Chicken Products, Jan – June**

	MT, 2003	MT, 2004	MT, 2005	% Change - 05/04 -
<b>chicken</b>	27,331	30,360	66,479	119%
chicken wings	9,939	6,157	10,794	75%
chicken feet	6,988	17,493	42,990	146%
chicken frozen cuts	10,025	5,991	10,157	70%
chicken, whole	-187	-7	250	-3451%

Source: Hong Kong Census & Statistics Department – World Trade Atlas

## Narrative on Supply and Demand, Policy & Marketing

### Production

The Hong Kong government has introduced measures to reduce the local chicken population of 3.7 million to 2 million by the end of 2005. The rationale is based on the target to complete depopulation of chicken in one week in the event of an avian influenza outbreak. To this end, the government announced on August 5 a voluntary surrender scheme for licensed poultry farmers, wholesalers and transporters. The ex-gratia payment for farmers will range from HK\$450,000 to HK\$4,150,000 (US\$58,000 to US\$535,500) based on farm sizes.

People in the industry forecast that about half of the farmers will give up their licenses to obtain ex-gratia payments. It is because the licensing requirements are getting increasingly stringent with strict bio-security and anti-pollution controls. The Hong Kong government will cancel their farm licenses if licensing requirements are violated. In such event, farmers will receive no compensation at all. The ex-gratia payment the Hong Kong government now offers provides farm operators with a monetary incentive to give up their licenses. The government will receive applications for the voluntary surrender scheme for 12 months.

Currently there are about 147 chicken farms in Hong Kong. About 60 to 70 percent of the farms in Hong Kong have a chicken population of 10,000 head. Less than five farms raise 100,000 head of chickens.

The Hong Kong government has taken a number of steps to reduce the public health risk associated with an AI outbreak in Hong Kong, primarily directed at reducing human exposure to live chickens. Possibly the most controversial measure is the compulsory termination scheme for all existing live poultry farmers, wholesalers and retailers in the event of a local avian influenza outbreak. If a second farm is found to be infected with the H5 virus within days after the first one, regardless if the two farms are related, the government intends to regard the situation as an outbreak and cull the entire chicken population in Hong Kong.

The government also plans to impose a ceiling on the maximum number of live poultry that may be kept in a farm. It is also encouraging centralized slaughtering of live poultry rather than in individual wet markets. Similarly, the sale of live chickens in wet markets and fresh provision shops will be phased out over a period of time. Also, the daily supply of live chickens will be maintained at a level of not more than 60,000. The government will also stop issuing new poultry farm licenses and fresh provision shop licenses with endorsement to sell live poultry. (For details of the plan, please refer to gain #HK5010.)

### Consumption

Retail sales of chicken have soared in recent weeks in response to a series of food scares concerning the consumption of pork and freshwater fish from Mainland China. A retailer indicated that sales of frozen chickens have increased over almost 30 percent. However, this change in consumption patterns is not expected to continue.

China is the biggest supplier of pork and freshwater fish to Hong Kong. The recent human *Streptococcus suis* infection cases in China scared off Hong Kong people from buying pork during the latter half of July and August. Between July 28 and August 24, China suspended its supplies of frozen pork from those affected areas to Hong Kong. For details, please refer to Gain #5023. Following on the heel of the pork incident is another food scare concerning freshwater fish. China supplies over 90 percent of the freshwater fish for the Hong Kong market, and many import samples were found to contain cancer chemical, malachite green.

Out of the 54 samples tested, 13 were confirmed positive as at August 24. Supplies of freshwater imports were slashed by 80 percent.

The consumption trend is that Hong Kong consumers will gradually substitute freshly slaughtered chickens with chilled/frozen chickens in the future. Such consumption pattern change can be attributed by a number of factors.

In the past, the average daily consumption of chickens was as high as 100,000 head. However, since April 2004, governmental regulations have limited the supply of live chickens to 60,000 head, with local production and imports from Mainland accounting for 30,000 head each. As a result, Hong Kong consumers have been forced to shift demand to chilled whole chickens given the reduced supplies of live birds. China is the largest supplier of chilled whole chickens, accounting for 99 percent.

In the first half year of 2005, Hong Kong's imports of chilled whole chickens from China rose 120 percent compared to the same period in 2004, reaching \$25 million. Hong Kong's imports of chilled whole chicken from China in the entire year of 2002, 2003 and 2004 were only \$0.9 million, \$8.6 million and \$31.6 million respectively. The trend is expected to continue, as the number of retail outlets selling live chickens are reduced. Moreover, consumers are increasingly getting used to chilled/frozen products. They value the convenience, hygiene and value that chilled/frozen products offer. As shown in Table 2, the retail price of live chicken increased by 34 percent in 2005 compared to 2003 when the Hong Kong government did not set any supply quota for live chickens. One whole live chicken now sells at about HK\$60 or US\$7.75. In contrast, a chilled whole chicken from China only sells HK\$28 or US\$3.60

The following table depicts the change of consumption pattern of chicken products. The consumption of chilled and frozen chicken products has increased over the years in contrast to the diminishing portion of live chickens.

#### Retained Imports of Chicken Meats

				% Change
<b>Chicken (no feet)</b>	<b>MT, 2002</b>	<b>MT, 2003</b>	<b>MT, 2004</b>	<b>- 05/04 -</b>
Imports	467,655	409,950	310,676	-24%
Re-exports	303,834	255,890	66,675	-74%
Retained	163,820	154,061	244,000	58%

#### Chicken Consumption Pattern from 2002 – 2004

	<b>MT, 2002</b>	<b>MT, 2003</b>	<b>MT, 2004</b>	<b>% share 02</b>	<b>% share 03</b>	<b>% share 04</b>
<b>Live Chicken</b>	60,910	58,310	28,973	27%	27%	11%
<b>Chicken Meats</b>	163,820	154,061	244,000	73%	73%	89%
<b>Total Consumption</b>	224,730	212,371	272,973	100%	100%	100%

Source: Hong Kong Census & Statistics Department  
Agriculture, Fisheries and Conservation Department

#### Trade

The single most significant factor affecting U.S. exports of poultry feet has been the change in certification requirements that place on April 30, 2005. All U.S. chicken paws produced

after April 30 have to have the same health certification as poultry meat. The Hong Kong government granted the U.S. industry a one-year grace period before implementing this new requirement. Given that some U.S. plants do not intend to modify their plant facilities to accommodate the new certification requirement, available supplies from the U.S. could be reduced. Selected traders believe that U.S. chicken paw exports to Hong Kong will decline by over 50 percent.

Since the Hong Kong government has taken “the production date” as the cut-of date, products exported to Hong Kong in May or June with production date prior to April 30 are still eligible to be imported to Hong Kong without complying with the new requirement. The monthly figures of chicken paws below showed the gradual impact of the new certification requirement. U.S. chicken paws exports to Hong Kong began to decline in June (-49 percent) and are expected to drop further as the stocks produced prior April 30 are cleared. On the other hand, other U.S. chicken products and Brazilian products did not experience any drastic decline as in the case of U.S. chicken feet exports to Hong Kong. Monthly figures of chicken feet imports in 2005

(MT)

<b>U.S. Products</b>	Jan	Feb	Mar	Apr	May	Jun
Chicken Feet Products	16,674	10,338	11,340	9,404	11,309	5,739
Non-chicken-feet Products	8,761	5,874	6,552	4,234	4,317	3,197
<b>Brazilian Products</b>	Jan	Feb	Mar	Apr	May	Jun
Chicken Feet Products	4,790	2,492	3,374	2,671	3,145	2,549
Non-chicken-feet Products	8,550	6,826	8,782	7,636	8,224	8,435

Hong Kong's market for chilled/frozen chicken products is quite stable. The domestic market was as large as \$274 million (excluding re-exports and paws) in 2004. When chicken paws and re-exports are considered, the size of the import market amounted to \$484 million.

A significant change in 2004 was that Brazil became the largest supplier of chilled/frozen chicken meat for the Hong Kong market in terms of value for the first time. The United States still maintained the position as the largest supplier in terms of volume. Brazilian products successfully expanded the market share when U.S. products were banned in Hong Kong in early 2004 as a result of avian influenza cases in the U.S. In the first half year of 2005, Brazil remained to be the largest supplier of chicken products for the Hong Kong market in terms of value.

In 2004, Hong Kong imported \$152 million of U.S. chicken products to Hong Kong including re-exports to China and chicken paws. About \$44 million of U.S. imports to Hong Kong were re-exported and \$108 million worth of the products were retained in Hong Kong for domestic consumption.

In the coming years, it will be a challenge for U.S. products to recapture the market share it had in 2003 (45 percent) because of strong competition from Brazilian products. U.S. mid-joint wings used to be very popular in the Hong Kong market. However, Hong Kong traders imported Brazilian mid-joint wings to fill up the void in the market left by the banned U.S. products. Given the lower prices of Brazilian products, Hong Kong traders continue to import Brazilian products though the ban on U.S. products was lifted in mid 2004. Industry sources estimate that Brazilian products now account for about 80 percent of the market. According to the trade, the offer prices of U.S. whole legs were 74 to 79 cents per pound compared to Brazilian whole legs offered at 53 cents per pound. The wholesale prices of Brazilian whole legs were just HK\$4.60/lb or 59 cents per pound, which are far lower than the prices offered

by U.S. exporters. Nonetheless, U.S. products are highly regarded in Hong Kong for their good quality. Some consumers continue to be willing to pay a premium for U.S. products.

In 2005, the import of chilled/frozen chicken products is expected to drop by 6 percent compared to 2004, reaching 230,000 MT (PS&D table). Since live chickens were banned during January 30 – April 20, 2004, imports of chilled/frozen chickens in 2004 were driven higher than normal. When the ban was lifted, consumers turned to buy live chickens again. As such, the 2005 import level of chilled/frozen chickens is expected to be lower than last year. However, the long-term trend is that the imports of chilled/frozen chickens will rise as the consumption of freshly chickens is restricted at 60,000 head daily.

#### Re-exports to China

There are increasingly more and more direct shipments to China given the expensive terminal costs in Hong Kong and the charges (HK\$4000/container) incurred by the compulsory pre-inspection requirement conducted by China Inspection Co. in Hong Kong. Effective November 1, 2004, all meat re-exported to China through Hong Kong have to be pre-inspected by China Inspection Co. in Hong Kong. If traders have all the necessary permits and supporting documents, they will opt to ship products directly from the U.S. to ports in China. Traders said that many liners already have direct shipping routes linking ports from North America to major ones in China. However, products from South America still are re-exported to China through Hong Kong because of the lack of direct shipping between ports in South America and China. A company indicated that about 50 percent of its products to China are of direct shipments already.

The Chinese government announced a new import regulation effective September 2002, by which the consignee's name on the permit has to match the name on the health certificate issued by FSIS. Traders have not been happy with this regulation as it fails to provide flexibility in switching buyers, even when unexpected changes in market situation occur. Realizing the inconvenience caused to traders, the Chinese government has modified this regulation. The modified regulation, which took effect in May 2005, allows the discrepancy in consignee's names on FSIS certificate and permit as long as the permit holder shows contracting documents with the consignee whose name appear on the FSIS certificate. Hong Kong traders are generally glad with this modified regulation as they now can switch buyers in China even after the issuance of the FSIS certificate.

According to information provided by the China Inspection Co. Hong Kong, they have found quite a number of counterfeit FSIS certificates covering products originating from other countries other than the U.S. Upon the request of the China Inspection Co, FSIS will help verify the certificates via Agricultural Trade Office in Hong Kong.

#### Ban on Chicken Products

As August 2005, Hong Kong suspends poultry imports from the following countries because of avian influenza outbreak there:

Cambodia, Vietnam, Laos Pakistan, Thailand, Indonesia, Republic of South Africa, Democratic People's Republic of Korea, Russian Federation and Kazakhstan.